

Message Text

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ORIGIN XMB-04

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DRAFTED BY XMB: RAYMOND J. ALBRIGHT
APPROVED BY EUR/EE:C W SCHMIDT
STATE: S. FROMOWITZ
XMB: S. GLAZER
EB/ODF:T PARKER (SUBS)

-----018609 150229Z /72

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FM SECSTATE WASHDC
TO AMEMBASSY BELGRADE IMMEDIATE

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E.O. 11652: N/A

TAGS: EFIN/YO

SUBJECT:EXIMBANK OPERATING PROCEDURES: PRESENTATION
GUIDANCE

REF: STATE 36657

1. THIS MESSAGE PROVIDES GUIDELINES FOR PRESENTATION TO
YUGOSLAV AUTHORITIES OF PROPOSED NEW EXIMBANK OPERATING
PROCEDURES IN YUGOSLAVIA. TEXT OF A LETTER FROM EXIM
CHAIRMAN MOORE TO FINANCE SECRETARY CEMOVIC BEING SENT
SEPTEL TO TRANSMIT THE PROPOSED MEMORANDUM OF UNDERSTANDING
(TEXT PROVIDED EMBASSY BY REFTEL). EXIMBANK IS POUCHING
ORIGINAL LETTER AND MEMORANDUM FOR EMBASSY DELIVERY.
IN THE MEANTIME, EMBASSY IS REQUESTED TO DECLASSIFY AND
PROVIDE ADVANCE COPIES OF LETTER AND MEMORANDUM TO CEMOVIC
AND OTHER YUGOSLAV OFFICIALS EMBASSY MAY BELIEVE
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PAGE 02 STATE 039582

APPROPRIATE. AS HE REQUESTED AMBASSADOR BELOVSKI IS
RECEIVING COPIES IN WASHINGTON FEBRUARY 13.

2. AT CONCLUSION OF EXIM DISCUSSION OF MEMORANDUM WITH
BELOVSKI FEBRUARY 10, BELOVSKI SAID HE WOULD SUPPORT
ACCEPTANCE BY BELGRADE AUTHORITIES OF THE MEMORANDUM,
BOTH IN TERMS OF ITS CONTENT AND ITS USEFULNESS IN
PROVIDING A PROCEDURE THAT RESPONDS MORE

ADEQUATELY TO EXIM NEEDS THAN THE CEMOVIC LETTER OF

DECEMBER 5. HIS MAIN SUGGESTIONS ACCEPTED BY EXIM WERE (1) TO PREFACE PARA. 4 WITH EXPLICIT REFERENCE TO YUGOSLAV LEGISLATION AS THE BASIS FOR WHAT IS SET FORTH IN THAT PARAGRAPH; (2) IN PARA. 4 TO USE LANGUAGE AS CLOSE AS POSSIBLE TO THE TEXT IN THE CEMOVIC DECEMBER 5 LETTER BUT OVERCOME CERTAIN COMPLEXITIES IN THAT TEXT; AND (3) IN PARA. 5 TO REPLACE SPECIFIC REFERENCE TO QUOTE THE FEDERAL GOVERNMENT OF YUGOSLAVIA UNQUOTE WITH QUOTE GOVERNMENTAL UNQUOTE IN CONNECTION WITH THE QUOTE UNCONDITIONAL GUARANTEE UNQUOTE. CHANGE (3) IS DESIGNED TO ALLOW MAXIMUM FLEXIBILITY AS TO THE FORM OF THE UNCONDITIONAL GUARANTEE, BUT IT CLEARLY HAS TO BE GOVERNMENTAL. BELOVSKI AGREED TO EXPLAIN TO HIS AUTHORITIES, AND EMBASSY SHOULD MAKE CLEAR IN ITS PRESENTATIONS, THAT THE REVISED LANGUAGE INCLUDES POSSIBLE PROVISION OF A FEDERAL GOVERNMENT GUARANTEE THROUGH FINANCE SECRETARIAT, NATIONAL BANK OR OTHER FEDERAL GOVERNMENT ENTITY (INCLUDING POSSIBLE NEW YUGOSLAV BANK FOR INTERNATIONAL ECONOMIC COOPERATION). EXIM ALSO INDICATED WILLINGNESS TO CONSIDER MECHANISM FEDERAL EXECUTIVE COUNCIL RECENTLY USED FOR JUGOBANKA AND THE EUROPEAN INVESTMENT BANK (BELGRADE 702). BELOVSKI SPECULATED THAT THE YUGOSLAVS MIGHT WANT TO PROPOSE ONE OR LIMITED OFFICIAL USE LIMITED OFFICIAL USE

PAGE 03 STATE 039582

MORE REPUBLIC GOVERNMENTS AS THE GOVERNMENTAL GUARANTEEING ENTITY AND EXIM AGREED THAT IDEA COULD BE CONSIDERED UNDER THE LANGUAGE AS NOW PROPOSED IN PARA. 5. IN THE LAST ANALYSIS THE PROPOSED CONSULTATIONS WILL DETERMINE THE NATURE OF THE GOVERNMENTAL GUARANTEE AT THE TIME A SPECIFIC TRANSACTION IS BEING CONSIDERED.

3. IN ADDITION TO DRAWING ON FOREGOING AND POINTS IN MOORE FEBRUARY 10, 1978 LETTER, EMBASSY MAY WANT TO USE FOLLOWING INFORMATION IN DISCUSSIONS WITH YUGOSLAVS: (A) BELOVSKI INITIALLY STILL CONFUSED DISTINCTION BETWEEN GUARANTEE AND FOREIGN EXCHANGE ASSURANCE, BUT CONCLUDED WITH UNDERSTANDING AND ACCEPTANCE WHEN EXIM MODIFIED TEXT TO EMPLOY MORE TEXT IN PARA. 4 FROM CEMOVIC DECEMBER 5 LETTER. THE GUARANTEE FROM THE BANKS PROVIDES SUFFICIENT DINARS TO MAKE A CREDIT REPAYMENT ON SCHEDULE IF THE BORROWER DOES NOT HAVE THE DINAR FUNDS. THOSE DINARS, WHETHER FROM BORROWER OR GUARANTOR, MUST BE CONVERTED TO DOLLARS FOR PAYMENT TO EXIM. SINCE FOREIGN EXCHANGE AVAILABILITY IN YUGOSLAVIA IS STILL REGULATED CENTRALLY THROUGH THE NATIONAL BANK, THE FOREIGN EXCHANGE ASSURANCE IS NEEDED BY EXIM AS PROPOSED IN THE MEMORANDUM. PARAS. 3 AND 5 DEAL ONLY WITH GUARANTEE PROCEDURES. PARA. 4 DEALS ONLY WITH THE FOREIGN EXCHANGE ASSURANCE. AND IT

WAS THIS AREA OF FOREIGN EXCHANGE ASSURANCES WHICH CEMOVIC

IN THE SEPTEMBER 1977 DISCUSSIONS AT EXIM EXPLICITLY
SAID WOULD BE COMPATIBLE WITH THE LATEST YUGOSLAV LAWS AND
PROCEDURES. (B) IN PARA. 3 EXIM ENVISAGES THE JOINT AND
SEVERAL GUARANTEE AS BEING EMBODIED IN AN AGREEMENT WITH
A STANDING CONSORTIUM OF ALL OF THE BANKS LISTED (OR THEIR
SUCCESSORS SINCE CHANGES ARE ALREADY OCCURRING). SUCH
AGREEMENT WOULD BE SO DESIGNED AS TO ALLOW ONE BANK TO ACT
AS A LEAD BANK ON ANY SPECIFIC TRANSACTION FOR THE
YUGOSLAV BORROWER, BUT THE OBLIGATIONS TO EXIM OF THE LEAD
BANK WOULD BE BACKED BY THE CONSORTIUM. FROM PRIOR
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PAGE 04 STATE 039582

EXPERIENCE EXIM BELIEVES SUCH AN AGREEMENT AND PROCEDURE
ARE QUITE FEASIBLE. EXIM SUGGESTS THAT EMBASSY EMPHASIZE
FEASIBILITY AT THIS TIME AND NOT DISCUSS MECHANICS
WHICH EXIM WOULD LIKE TO NEGOTIATE DIRECTLY WITH THE BANKS
AS SOON AS POSSIBLE AFTER APPROVAL BY GOVERNMENT
AUTHORITIES OF THE MEMORANDUM PRINCIPLES. CHAIRMAN'S
LETTER OF FEBRUARY 10 ALSO REMINDS CEMOVIC OF MOORE'S WISH
TO MAKE USE OF FINANCE SECRETARY'S OFFER TO FACILITATE
EXIM NEGOTIATIONS WITH THE PROPOSED GUARANTEEING BANKS.

(C) EXIM PROPOSALS IN THE MEMORANDUM IN NO WAY

DISCRIMINATE AGAINST YUGOSLAVIA. EXIM REQUESTS AND
OBTAINS FOREIGN EXCHANGE ASSURANCES IN ANY COUNTRIES WHICH
MAINTAIN FOREIGN EXCHANGE CONTROLS, INCLUDING SUCH DIVERSE
ECONOMIES TODAY AS JAPAN, FRANCE, SPAIN, BRAZIL, ARGENTINA
AND ALGERIA. THE ENTITIES, PROCEDURES AND FORMS OF SUCH
ASSURANCES MAY VARY ACCORDING TO THE RESPECTIVE SYSTEMS.
HOWEVER, THE NET RESULT IS TO ENABLE EXIM IN EVERY CASE
TO DRAW THE CONCLUSION SET FORTH IN THE DOCUMENT BEING
REQUESTED OF YUGOSLAVIA. AS TO POSSIBLE EXIM REQUESTS
TO YUGOSLAVIA FOR AN UNCONDITIONAL GOVERNMENTAL GUARANTEE
IN SOME CASES, IT SHOULD BE POINTED OUT THAT EXIM RECEIVES
UNCONDITIONAL CENTRAL GOVERNMENT GUARANTEES OF REPAYMENT
FOR ALMOST ALL EXIM CREDITS TO SUCH DIVERSE ECONOMIES AS
ALGERIA, ARGENTINA, BRAZIL, IRAN, ISRAEL, KOREA, MEXICO,
THE PHILIPPINES AND TAIWAN. IN MOST OF THESE COUNTRIES
EXIM EXPOSURE IS LARGER OR EQUAL TO ITS EXPOSURE IN
YUGOSLAVIA.

4. EXIM CURRENTLY HAS APPLICATIONS OR SERIOUS
DISCUSSIONS UNDERWAY FOR SEVERAL TRANSACTIONS FOR
WHICH YUGOSLAV BORROWERS ARE SEEKING AN EXIM DECISION IN
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PAGE 05 STATE 039582

THE NEAR FUTURE. THE SOONER THE QUESTION OF EXIM

OPERATING PROCEDURES CAN BE CLARIFIED THE SOONER EXIM WILL BE ABLE TO GIVE A RESPONSE BASED ON THE PROPOSED MEMORANDUM. FOR EXAMPLE, ALTHOUGH ONLY EXIM'S BOARD CAN MAKE A DECISION BASED UPON A REVIEW OF THE WHOLE CASE, IT

APPEARS THAT THE FOLLOWING TRANSACTIONS TO WHICH YUGOSLAV BORROWERS NOW GIVE PRIORITY WOULD FALL UNDER THE NEW BANK GUARANTEE PROCEDURES OF PARA. 3. PROJECT NAME IS FOLLOWED BY DESCRIPTION AND U.S. EXPORT VALUE IN MILLIONS OF DOLLARS: SOKO MOSTAR (COMPRESSOR FACTORY) 14, TREPCA (2 BATTERY PLANTS) 30 (15 EACH), RT BOR (CRUSHING AND GRINDING EQUIP) 7, UNIS (ROLLING MILL) 6, DJERDAP (HYDRO POWER) 25.

5. PLEASE ADVISE WHEN MOORE LETTER AND MEMORANDUM ARE PRESENTED. EXIM GREATLY APPRECIATES EMBASSY SUPPORT WITH APPROPRIATE YUGOSLAV OFFICIALS FOR THE PROPOSED RESOLUTION TO THIS ISSUE, AND WOULD LIKE TO KEEP INFORMED AS BELGRADE DISCUSSIONS PROCEED. VANCE

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